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ABSTRACT

Addressed to individuals providing unregulated child care in their homes, this booklet presents basic recordkeeping and tax rules. The booklet discusses the following topics: (1) child care regulations, focusing on the benefits of being regulated; (2) the business of child care, listing possible tax deductions; (3) the tax consequences of caring for children, presenting a worksheet detailing the tax liability of caring for children in one's home; (4) record keeping and tax tips, presenting seven rules for organizing records; (5) "unregulated, or illegal?" which notes that illegal providers are still required to report income on federal and state tax forms but cannot claim as many business deductions as caregivers who are licensed; (6) government benefit programs; (7) tax credits and child care subsidies; (8) agreements and insurance, including a sample child care agreement; (9) reducing the risks of caring for children; and (10) suggestions for additional help. (KB)

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Caring for Children in Your Home

A Business Guide for Unregulated Providers

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About Redleaf National Institute

Redleaf National Institute is the national center for the business of family child care. It offers a variety of services to help caregivers succeed in their business. Call 651-641-6675, e-mail rni@redleafinstitute.org, or visit their Web site at www.redleafinstitute.org to get help with:

- Questions about record keeping, taxes, or other business matters
- Information about workshops for new providers
- Names of tax preparers in your state who prepare family child care tax returns

Become A Member

Redleaf National Institute also offers a membership program for child care providers. Members receive many
benefits, including discounts on Redleaf Press books, a business newsletter, access to insurance, a toll-free number to ask business-related questions, and much more. For further information, contact the Institute at 800-423-8309.

Tom Copeland is the director of Redleaf National Institute. He is the nation's leading authority on family child care business issues and the author of several books. His email address is tom@redleafinstitute.org.

Redleaf National Institute and Redleaf Press are divisions of Resources for Child Caring (RCC), a 29-year-old private nonprofit agency that strives to improve the lives of children by strengthening and supporting the people who care for them.

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Caring for Children in Your Home

I only make $100 a month caring for two children. Do I have to report this to the IRS?

I'm caring for one child. Do I have to be licensed?

I receive financial assistance from my county (or Food Stamps or General Assistance Medical Care). Will I continue to be eligible for these programs if I earn money caring for children?

Am I liable if something happens to the child in my care?

This booklet is for anyone who is now being paid, or is about to be paid, to care for one or more children in his or her home. It will answer the above questions and more.

Introduction

You are to be commended for taking responsibility for caring for children! Taking care of even one child is an important job. Your work will make a positive impact on the lives of the children and their parents. Although helping children can be demanding, it also can be personally rewarding.

Once you start caring for children and get paid for doing so, you are in business. This is true even if the amount you are paid is very small. In taking care of children, you have rules to

follow as a small business. Anyone who accepts any money to care for children in his or her home must report this income and file tax forms with the Internal Revenue Service (IRS). This is true no matter how small the amount of money is, or how few hours you work. You may also have to file some state tax forms. That's the bad news. The good news is that you can claim many expenses for caring for children. In some cases, your expenses may even equal your income and you will not owe any taxes. In a few cases you may even be entitled to get a refund from the IRS because of a special tax credit.

We wrote this booklet to help you understand a few basic record-keeping and tax rules. We want to show you how you can keep good records so you will reduce any taxes you might owe. We will also explain the nature of child care regulations and a program that will give you money for serving food to children. In addition, this booklet discusses agreements with parents and how to reduce the risks of caring for children. Finally, this booklet will list other resources that can help answer your questions.

Child Care Regulations

Each state establishes its own regulations for child care providers. You should contact your local county social service department to find out the regulations for your area. In some states you can care for several children without having to get licensed. In other states you must obtain a license even if you are only caring for one child. If you fail to comply with your state regulations, you could be fined by your state, you will lose

many tax deductions, and you expose yourself to greater liability if an accident occurs at your home.

There are many benefits to becoming regulated. You can:

- Earn more money by caring for more children
- Be paid for serving food to the children (up to about $15 per week per child from the Child and Adult Care Food Program)
- Deduct many current house expenses that will reduce your taxes
- Become eligible for state and private grants to purchase equipment and make improvements in your home
- Sign up to be listed by your local Child Care Resource and Referral agency (CCR&R), which will refer parents looking for child care to you
- Join a local family child care association and meet with other child care providers in your area
- Attend a variety of training workshops on topics such as infant and toddler activities, discipline techniques, and how to serve low-cost, nutritious food

Even if you are not required to be regulated in your state, some providers decide to become regulated in order to take advantage of the benefits listed above. For more information about regulations in your area, contact your local CCR&R (see the back of this booklet).

The Business of Child Care

Whether you are regulated or not, if you receive any money for taking care of children

in your home, you are running a child care business. Everyone earning money is required to report their income on federal and state tax forms. This is your gross income. Because you are in business, you are entitled to deduct business expenses that reduce your gross income. The result is your *net income.*

Gross Income – Business Expenses = Net Income

Another word for net income is *profit.* The taxes you may owe are based on your profit. The lower your profit, the lower your taxes will be. Most caregivers can significantly reduce their profit by claiming thousands of dollars in business expenses, even if they are caring for only one or two children. In many cases they are able to deduct family expenses they had before they began caring for children.

Here are some examples of business expenses you may be able to deduct:

- Food for the children
- Arts and craft supplies
- Laundry/cleaning supplies
- Toys/games
- Car expenses for business trips
- Appliances, furniture, play equipment
- House expenses, including a portion of utilities, rent, mortgage interest, property taxes, homeowner's insurance, house depreciation, and house repairs

When caregivers keep careful records of their expenses and claim them as business deductions, they can keep their taxes very low.

The Tax Consequences of Caring for Children

On the next page there is a worksheet that describes the tax consequences of caring for children. The first column, "Illegal Provider," represents providers who are required to be regulated by their state but are not. "Regulated or Informal Provider" represents providers who do meet state regulations or are not required to meet them. "Regulated and on the Child Care Food Program" represents providers who meet state regulations and have joined the federal Food Program.

The numbers in this example are only estimates shown for comparison purposes. Your income and expenses may be very different. Not all business deductions or tax consequences are shown on the chart on the following pages. Notice that the deductions are the same for each provider, except that the illegal provider cannot claim expenses associated with the home (those marked by *). By losing these deductions, the illegal provider pays more taxes. Also note that an informal provider can claim all the same deductions as a regulated provider.

The provider on the Food Program pays more taxes, but has the most cash on hand at the end of the year.

	Illegal Provider	Regulated or Informal Provider	Regulated and on the Child Care Food Program	Fill in Your own Estimate
INCOME				
Parent fees (1 child x $90 per week)	$4,680	$4,680	$4,680	_____
Food Program ($60 per month for one child)	0	0	720	_____
Total Income	**$4,680**	**$4,680**	**$5,400**	_____
BUSINESS DEDUCTIONS				
Arts and Crafts Supplies	500	500	500	_____
Laundry/cleaning/ supplies	250	250	250	_____
Food	850	850	850	_____
Toys	100	100	100	_____
Training expenses	50	50	50	_____
Car expenses (48 miles a month x 32.5 cents a mile 2000 rate)	187	187	187	_____
Appliances, furniture, play equipment [1]	141	141	141	_____
HOME EXPENSES				
Utilities ($700)[2]	*	175	175	_____
House depreciation ($62,000)[1]	*	380	380	_____
Homeowner's insurance ($300)[2]	*	75	75	_____
Mortgage interest ($3,000)[2]	*	750	750	_____
Property taxes ($600)[2]	*	150	150	_____
Total Deductions	**$2,078**	**$3,608**	**$3,608**	_____

	Illegal Provider	Regulated or Informal Provider	Regulated and on the Child Care Food Program	Fill in Your own Estimate
Net Income (Total Income – Total Deductions)	$2,602	$1,072	$1,792	_____
Social Security Tax	368	240	253	_____
Federal Income Tax (15%)	390	161	269	_____
After Tax Income (Net Income – Social Security Tax and Federal Income Tax)	1,844	671	1,270	_____
Cash on hand at end of year (After Tax Income + Home expenses)	**$1,844**	**$2,201**	**$2,800**	_____

Notes:

[1] Expenses for appliances, furniture, play equipment and the home must be spread over a number of years using tax rules called depreciation. These rules are too complex to explain here. See *The Family Child Care Tax Workbook* listed at the end of this booklet.

[2] Only a portion of these home expenses may be claimed as business deductions. For a description of how to calculate your proper portion, see the *Family Child Care Record Keeping Guide* listed at the end of this booklet.

Record Keeping and Tax Tips

Nobody decides to care for children because they like to keep records and prepare tax returns. But it's very important to keep records of your income and expenses. By doing so, you will lower your taxes considerably. Here are seven simple rules to follow to help you organize your records:

1) **Keep track of how much each parent pays you.** When you deposit money in your checking account, mark on a deposit slip or in your check register the name of the parent who paid you. This will help you separate your personal income from your business income.

2) **Save receipts.** Save receipts for all items bought for the children, as well as receipts for items used to clean and maintain your home. This includes art supplies, food, light bulbs, toilet paper, diapers, toys, high chair, furniture, and other items used in your business. Part or all of the cost of these items can be deducted from your income.

3) **Mark your receipts.** Mark right on each receipt what you bought, where you bought it, and the date you bought it (if it's not already printed on the receipt). If you didn't get a receipt (at a garage sale, for example), create your own receipt with the same information.

4) **Store your receipts by type of expense.** Keep your receipts in a folder or envelope. Group your food expenses, toys, utility bills, and so on, in separate folders. This will help you organize your records at tax time.

5) **Keep track of how many hours you work.** Use a calendar to record all the hours you work. Include the hours you care for children and the hours you work before and after the children are present. These hours can include cleaning the home, preparing food, planning activities, record keeping, and so on. The hours you work will be used at tax time to determine how much of your house expenses (utilities, rent, property tax, mortgage interest, and so on) you can deduct from your income.

6) **Review your records monthly.** Each month, look over your records and ask yourself these questions: Have I written down all parent payments? attendance records? hours I worked? Do I have all my receipts? It is easiest to sort out missing information during the year rather than at the end of the year.

7) **Keep your records for at least three years.** The IRS requires that you keep your receipts and tax records for three years after you file your tax return.

Do your best to follow these seven rules. By doing so, you will be able to claim many more expenses and reduce your taxes. For more information about how to keep track of expenses, see the books listed at the end of this booklet.

Unregulated, or Illegal?

If you are not required to be regulated, you should report your income and claim business expenses exactly the same way as if you were

regulated. This means that if your state law says you must be licensed only if you are caring for more than three children, and you are caring for two children, you are exempt from the law. In this situation you can deduct all of the expenses listed above. If you are caring for four children and you are not licensed, you are operating illegally. You are still required to report your income on federal and state tax forms even if you are operating a child-care business illegally. But if you are operating illegally, you cannot claim as business deductions any of the house expenses (utilities, rent, and so on) listed above. Because illegal providers cannot claim as many business deductions, they will pay more in taxes each year than providers who are licensed or exempt from licensing. We encourage illegal providers to follow the child care regulation rules in their state because it is the right thing to do and because there is very little extra paperwork required for doing your taxes when you become regulated.

Government Benefit Programs

Many people caring for children are concerned that the money they are earning will make them ineligible to receive benefits from a number of federal and state programs. These programs include Temporary Assistance for Needy Families (TANF), Food Stamps, General Assistance, Supplemental Security Income, General Assistance Medical Care, Medical Assistance, and Social Security. Many of these programs allow you to reduce your gross income by claiming most, but not all, of the types of business expenses listed above. This

means that your eligibility for these programs is based more closely on your net income, not your gross income. Because your net income is likely to be very low, it is probable that your benefits from these other programs will not be greatly affected. Check with individual programs for more details.

Tax Credits and Child Care Subsidies

The Dependent Care Tax Credit permits working parents to receive a federal tax credit for child care expenses. If you care for your own child, you are not eligible for the federal child care tax credit. If you pay someone else to care for your child while you work at home caring for other children, you may be eligible for the federal child care tax credit. See IRS Form 2441 (call 800-829-3676) for further information.

In addition to the federal child care tax credit, there is a new federal child tax credit. In 2000 you are eligible to receive a $500 tax credit if you have children who are under age 17 at the end of the year and your family's adjusted gross income is less than $75,000 (if you are single), or less than $110,000 (if you are married). These eligibility rules may change after 2000.

The Earned Income Tax Credit (EIC) is a federal tax credit available to help reduce the taxes of low-income families. You may be eligible for a refund even if you do not have to pay taxes, and even if you are caring for your own children. See IRS Schedule EIC for further information.

Agreements and Insurance

Having a written agreement between you and the parent of the child you are caring for is a good idea. It protects both you and the parents by avoiding misunderstandings and setting down the ground rules ahead of time. It should clearly tell parents what hours you will work and how much you will be paid. It should also spell out how the agreement will end. Most child caregivers require parents to give a two-week paid notice before they can remove their child from care. Payment must be made for those two weeks whether or not the child shows up. Put your agreement in writing and have the parent(s) sign it. Each party should keep a copy of the contract.

You may also want to write down a list of policies describing your rules on how you will care for children. Such policies could cover discipline, meals, illness policy, activity schedule, emergency procedures, toilet training, personal philosophy of child rearing, and other topics. You can include with your policies any particular rule you want. If you do prepare a list of policies, give copies to all parents for them to review. Encourage parents to ask you if they have any questions about your agreement or your policies.

On the following page there is a sample agreement form you might want to use.

Child Care Agreement

1) This agreement is made between the Parent(s) and Caregiver for the care of_____.
(name of child)

2) The Caregiver will provide care from _____ A.M. to _____ P.M. on the following days of the week:
_____

3) The Parent will pay $ _____ per week/hour, which is due on _____(time of day and week).

4) Either Parent(s) or Caregiver may end this agreement by giving a _____ -week written notice before the ending date. Payment for this notice period is due whether or not the parent brings the child to care. The Caregiver may immediately end the contract without giving any notice if the Parent(s) do not make payments when due.

_____ _____
Mother/Guardian Father/Guardian

_____
Home address

_____
Home phone

_____ _____
Business phone Business phone

_____ _____
Caregiver Date Agreement Signed

Whatever type of agreement you use with parents, the most important rule to establish is how much you will be paid and when. Set a specific day and time for the parents to pay you

("Monday when you drop off the child"). It is up to you to enforce this rule. If the parent misses a payment, charge a late fee or refuse to provide care until the bill is paid. You should not allow a parent to continue bringing a child without paying you. If the parent is receiving financial assistance from the county for child care costs, make sure the parent has filled out the paperwork in a timely manner. Many caregivers require parents to pay a week's child care in advance. Doing so will ensure that you are always paid for your work.

Reducing Your Risks

Caring for children in your home does increase the risk of damage or injury. These risks include damage to your home and its contents, injury to yourself and your family members, and injury to the children in your care and to their parents. Obviously, you should do everything you can to minimize these risks. You can never avoid risk altogether, but you can reduce the chances that something will go wrong.

First, keep your home as safe as possible and supervise the children closely. Second, make sure you have the proper insurance. Check your homeowner's insurance or renter's insurance policy to see if it covers you when you are caring for children. Pay particular attention to the coverage of the furniture and appliances in your home. Many homeowner's policies limit their coverage of property used in a business. If you cannot get the proper coverage from your existing policy, call an independent insurance agent (check the yellow pages) and have the

agent find you another policy that will cover your home or apartment. Also check to see whether your car insurance covers you while you are transporting a child. You may also want to purchase business liability insurance to protect you from lawsuits. In some cases you should be able to purchase liability insurance as an addition to your homeowner's insurance policy. For further information on where to obtain insurance policies, contact the CCR&R agency in your area.

Need More Help?

If you have any questions about family child care regulation rules, call your county social services office.

For information about support services available to providers (such as training, Child Care Food Program, or provider associations), contact your local CCR&R. The national office number is 202-393-5501.

Regulation offices and CCR&R agencies sometimes have a number of useful handouts and other written materials on child development and activities for children.

Redleaf Press publishes books that help providers with the business aspects of caring for children. Some of their books include:

Calendar-Keeper—a record-keeping calendar to help you organize your business expenses.

Family Child Care Record Keeping Guide—a book listing more than 1,000 business deductions and tips on how to keep good records.

Family Child Care Inventory-Keeper—a log book that will make it easy for you to claim depreciation on your furniture and appliances.

Family Child Care Marketing Guide—a book describing how to promote the benefits of your quality program.

Family Child Care Tax Workbook—an annual book describing how to fill out your tax forms.

For a free catalog describing these books and many more, call Redleaf Press at 800-423-8309, or visit www.redleafpress.org.

Please feel free to contact any of the organizations listed above for help. None of them will share information you give about yourself with any other government agency; this applies to the IRS, the Immigration and Naturalization Service (INS), your state revenue department, your county social service agency, and many other agencies.

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Family Child Care Business Resources from Redleaf Press

Calendar-Keeper

Be supremely organized with the most comprehensive family child care record-keeping system available. Monthly expense charts for all purchases; monthly attendance and payment log for parent fees; food program tallies for meals, expenses, and claims; weekly/quarterly income record; important record-keeping advice; tax worksheets; convenient mileage record; ready-to-use waiting list; fire and emergency drill records; easy-to-find emergency numbers; recipes and menus with CACFP crediting; nutrition information and fun activities; and handy envelope for receipts. Big 12 x 9, 92-page format has space to record 37 children. Spiralbound; will hang or lie flat. Also available as software.

Family Child Care Record Keeping Guide, Sixth Edition *By Tom Copeland, J.D.*

Includes over 1000 allowable deductions indexed alphabetically for easy reference, an expanded discussion of Time-Space percentage, ways to calculate all the hours you work, how to choose and use a qualified tax preparer, and a detailed explanation of CACFP (Food Program) Tier I and Tier II expenses and income. Includes selections from the IRS Family Child Care Audit Guide to help keep records that will protect you in the event of an audit. Other topics addressed include bartering, military housing allowances, tangible personal property tax, applying for a home loan, partnerships and incorporation, and employees.

Family Child Care Tax Workbook

(Includes all tax forms) by Tom Copeland, J.D.

Our *Tax Workbook* features step-by-step instructions to make it as easy as possible for you to do your taxes. We've included all the forms you'll need, perforated for easy tear-out, including Schedule C (Profit or loss for business), Form 8829 (Business Use of the Home), Form 4562 (Depreciation), Schedule SE (Social Security), and Form 1040 ES (Estimated Tax). The Tax Organizer will help you gather all the information you need to give to your tax preparer. Use with the *Record-Keeping Guide* and the *Calendar-Keeper* for a complete and error-free record-keeping and tax system.

Caring for Children in Your Home

I only make $100 a month caring for two children. Do I have to report this to the IRS?
I'm caring for one child. Do I have to be licensed?
Am I liable if something happens to the child in my care?

These are some of the most frequently asked questions from people who care for children in their homes. Unregulated in-home care (care that does not require licensure) is commonplace in child care today. Often called legal unlicensed care, informal care, or kith and kin, unregulated child care involves business responsibilities that providers are often not aware of. Once a caregiver gets paid to care for a child (even a small amount), the caregiver is in business. At that point, it is important to remember that taking care of children is only part of the job. Taking care of business is the other part.

Written by the leading national expert on family child care, *Caring for Children in Your Home* outlines some essential components to organizing a family child care business. Some of the topics discussed include: child care licensing, government benefit programs, record keeping and tax tips, and insurance.

Visit the national center for the business of family child care. The Web site of Redleaf National Institute, **www.redleafinstitute.org**, is your on-line resource for business issues unique to family child care.

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